



**Regional Transportation Authority**

# **Preliminary 1986 Budget Projections**

## **A Discussion Paper for Service Board Review and Comment**

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1986

August 1, 1985





# Regional Transportation Authority

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August 1, 1985

Chicago Transit Authority  
METRA, The Commuter Rail Division  
PACE, The Suburban Bus Division

Ladies and Gentlemen:

As part of the annual budget process, the RTA is required to set tentative fare box recovery ratios by September 15th of each year. To assist in this effort, the RTA staff has completed some "status quo" projections for 1986 and forecasts out to 1990. These presentations essentially project present conditions and trends, assuming no fare increases. Revenues and expenses have been estimated and the assumptions supporting them are provided. They are intended to serve as a starting point for discussion leading to policy decisions later.

We will appreciate your review of these preliminary figures and response to them by August 15th so we may remain on schedule. We would like to have a final version ready for general circulation by August 23rd so the discussion process may begin. The completed document is intended to include alternatives for everyone's consideration that will guide us into the process of developing final budgets for 1986.

If you have any questions, please contact staff with whom we will remain in close touch.

Sincerely,

Samuel K. Skinner  
Chairman

Charles G. Dalton  
Chairman, RTA Budget Committee

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## INTRODUCTION

In keeping with procedures adopted by the RTA Board of Directors, this report sets forth preliminary 1986 budget projections for consideration by the respective Service Boards. Based on forecasts and comments on these projections, as supplied to the RTA by the respective Service Boards by August 15th, it is the intention of the RTA to finalize projections for publication and general circulation by August 23rd.

Several points should be borne in mind in connection with review of these preliminary projections:

- o This preliminary document is intended to serve as an initial basis for staff level discussions with the Service Boards; in this context, it should not be construed as representative of RTA Board policy.
- o For purposes of illustrating the financial condition of the RTA and its Service Boards no fare increases or Service Board cost reductions are assumed. It should be emphasized, however, that in view of the Fund balance which results from this assumption, fare increases, cost reductions, or some combination of both appear necessary to maintain a sound financial footing.
- o Although for purposes of projecting carryover utilization, continuation of 1985 budgeted recovery ratios into 1986 and successive years has been employed, this is solely for purposes of illustration and should not be interpreted as anything more.
- o Based on the apparent conclusion to the reconciliation stage of the Federal budget process as of August 1st, a 15% reduction in Federal capital and operating grants has been assumed.
- o No major service changes have been assumed in FY '86. It has been assumed that RTA's planned issuance of \$100 million in working cash capital notes will be in place this year as planned, that recent amendments to the RTA act as enacted by the General Assembly will be signed into law by the Governor, and that the strategic planning process will develop as it is presently contemplated.
- o Similarly, the situation regarding labor costs of the Service Boards remains unsettled. In the case of the CTA, many different factors are pending the arbitrator's decision regarding which we have no insight due to confidentiality. Therefore, to be conservative, we have picked a somewhat pessimistic but not necessarily probable outcome, based on normal extrapolation from prior years. In the case of Commuter Rail, an average annual increase of 5.32% is assumed, which is consistent with prior year increases and is not necessarily a probable result of



current negotiations. This assumption was arrived at totally independently from the Commuter Rail Division's management and includes both management and labor employees. However, settlement of the national rail labor contract pending could materially affect the CRD labor element. In the case of PACE, stated assumptions represent an aggregate of the provisions of numerous different contracts.

- o As regards the non-CTA portion of the mobility-limited State of Illinois grant as contained in the new amendments to the RTA Act (currently pending gubernatorial signature) both versions assume distribution of \$500,000 to CRD and \$1,000,000 to SBD. These numbers should not be considered as a realistic estimate of how these funds will be actually allocated in the final analysis. They are for purposes of initiating discussion only. Clearly they are subject to revision by the RTA Board in setting policy on this matter once the measure has been signed into law. It is contemplated that proposed projects will be solicited from the Service Boards.
- o Although the FY '86 allocation of the second 50% of each Service Board's favorable FY '85 budget variance is contingent on information which will not be available until RTA's books are closed, it has been assumed for purposes of both alternatives that such funds will in fact be distributed. The presumption has been that such revenues from favorable variances would be used by the Service Boards for capital purposes -- either for 100% locally funded projects or to match Federal grants -- or for purposes otherwise exempt from farebox recovery ratio computations.
- o Identical fuel cost assumptions for the CTA, CRD, and SBD respectively as used in both versions are conservative (higher expense). It may be appropriate to consider downward revision in light of the present glutted market and the intermediate (less than five year) outlook, e.g.: OPEC's recent indecision concerning reallocating quotas and/or reaching accord on price stabilization measures, demand for OPEC oil has fallen to a 20-year low (output at approximately 14 million barrels per day compared to a peak of 31.5 million barrels per day in 1979), composite price of crude is now less than 1980 average, and a related downward pressure on prices has resulted.
- o RTA sales tax estimates and revenue allocations, underlying financial trends, a residual expense inflator and long-term forecasts are each discussed in separate attachments to this report.
- o Finally, inasmuch as this document represents an initial discussion paper, to be reviewed by August 15th and revised by August 23rd, it is planned that regular updates will be made as new information becomes available throughout the remainder of the 1986 budget process.



REGIONAL TRANSPORTATION AUTHORITY  
 FINANCIAL POSITION  
 In Thousands of Dollars

	1984 ACTUAL	1985 ADOPTED BUDGET	1985 ESTIMATED ACTUAL	1986 PROJECTED	REMARKS
<b>PART I - RTA REVENUES:</b>					
RETAIL SALES TAX	328,377	340,200	345,000	365,700	See Attachment A
PUBLIC TRANSPORTATION FUND	98,600	84,036	86,250	91,425	See Attachment A
MOTOR FUEL SALES AND USE TAX	349	100	300	200	Graduated trend from prior years
UMTA SECTION 9	46,323	58,000	58,000	49,300	15% reduction from 1985
OTHER GRANTS & REIMBURSEMENTS	1,563	598	598	678	13.4% increase
INTEREST INCOME	5,430	4,000	6,511	5,369	Residual Inflator plus 3%, see Attachment C
MOBILITY LIMITED GRANT	-	-	-	4,500	Per House Bill 1259
<b>TOTAL REVENUES</b>	<b>480,642</b>	<b>486,934</b>	<b>496,659</b>	<b>517,172</b>	



REGIONAL TRANSPORTATION AUTHORITY  
FINANCIAL POSITION  
In Thousands of Dollars

	1984 ACTUAL	1985* ADOPTED BUDGET	1985		1986 PROJECTED	REMARKS
			ESTIMATED ACTUAL	PROJECTED		
<b>PART I - PROGRAM COSTS:</b>						
TOTAL TRANSPORTATION SERVICES	381,561	478,377	457,183	490,901		See Parts VII, VIII, and IX for detail
RTA ADMINISTRATION	7,715	4,902	4,800	5,040		5% increase per statutory cap
RIDERSHIP INFO., MARKETING	2,294	2,760	2,700	2,835		5% increase
DEMONSTRATIONS, EXPERIMENTS	-	40	40	-		1986 can come from favorable 1985 variance
REGIONAL SUPPORT	413	1,113	1,113	994		5% increase for support and balance of strategic plan costs
REGION-WIDE SECURITY	-	-	-	0		Subject to further discussion
UNIFIED WORK PROGRAM	474	520	520	590		13.4% increase
INTEREST EXPENSE	1,467	488	2,212	2,771		New \$100 million (existing debt retired)
TRANSITION COSTS	-	113	113	-		
SET ASIDE FOR CAPITAL GRANTS	20,000	13,400	13,400	31,200		15% reduction in Section 9 capital and no State bonus money
RTA CAPITAL GRANTS TO:						
CTA	-	7,000	7,000	-		1986 can come from favorable 1985 variance
CRD	-	15,000	15,000	-		1986 can come from favorable 1985 variance
SRD	-	4,000	4,000	-		1986 can come from favorable 1985 variance
RTA CAPITAL PURCHASES	-	200	200	200		
PRIOR YEAR BUDGET VARIANCE TO:						
CTA	-	-	-	16,357		Pro rata share of favorable 1985 variance
CRD	-	-	-	3,888		Pro rata share of favorable 1985 variance
SRD	-	-	-	949		Pro rata share of favorable 1985 variance
TOTAL RTA OPERATING EXPENSES	413,924	527,913	508,281	555,725		
BUDGET SURPLUS (DEFICIT)						
	66,718	-40,979	-11,622	-38,553		
	=====	=====	=====	=====	=====	=====

\*As adopted through July 11, 1985



REGIONAL TRANSPORTATION AUTHORITY  
 FINANCIAL POSITION  
 In Thousands of Dollars

	1984 ACTUAL	1985 ADOPTED BUDGET	1985 ESTIMATED ACTUAL	1986 PROJECTED	REMARKS
<hr/>					
BEGINNING BALANCE	19,921	63,570	27,859	16,237	
BUDGET SURPLUS (DEFICIT)	66,718	-40,979	-11,622	-38,553	
NET EFFECT OF ACCT. ADJ.*	-58,780	-	-	-	See CAFFR for 1984
ENDING BALANCE	27,859	22,591	16,237	-22,316	
	=====	=====	=====	=====	=====

\* These adjustments also include scheduled service board payments over and above actual funding results shown on supporting detail.



REGIONAL TRANSPORTATION AUTHORITY  
FINANCIAL POSITION  
In Thousands of Dollars

	1984 ACTUAL	1985 ADOPTED BUDGET	1985 ESTIMATED ACTUAL	1986 PROJECTED	REMARKS
<b>PART IV - FAREBOX AND OTHER SYSTEM GENERATED REVENUES</b> (Includes revenue carryover)					
<hr/>					
CTA	300,770	301,982	296,057	306,623	
CRD	125,817	126,648	126,217	131,099	
SBD	14,688	18,543	18,488	19,749	
RTA	5,430	11,827	9,510	11,086	
<b>TOTAL REVENUE</b>	<b>446,705</b>	<b>459,000</b>	<b>450,272</b>	<b>468,557</b>	<b>=====</b>
<hr/>					
<b>PART V - SYSTEM OPERATING EXPENSES</b>					
<hr/>					
CTA	544,002	597,275	585,555	606,454	
CRD	220,965	243,078	240,212	251,629	
SBD	52,606	65,695	65,490	69,959	
RTA	11,881	9,448	9,286	9,459	
<b>TOTAL OPERATING EXPENSES</b>	<b>829,454</b>	<b>915,496</b>	<b>900,543</b>	<b>937,501</b>	<b>=====</b>
<hr/>					
<b>PART VI - RECOVERY RATIOS</b>					
<hr/>					
CTA	55.29%	50.56%	50.56%	50.56%	
CRD	56.94%	52.10%	52.54%	52.10%	
SBD	27.92%	28.23%	28.23%	28.23%	
SYSTEM-WIDE	53.86%	50.14%	50.00%	49.98%	



REGIONAL TRANSPORTATION AUTHORITY  
 FINANCIAL POSITION  
 In Thousands of Dollars

PART VII - CTA DETAIL	1984		1985		1985		1986		REMARKS
	ACTUAL	BUDGET	ADOPTED	BUDGET	ESTIMATED	ACTUAL	PROJECTED		
<b>REVENUES:</b>									
FAREBOX	271,511	271,443	271,345	274,058					1% Increase
CHARTER	608	577	585	591					1% Increase
ADVERTISING & CONCESSIONS	3,224	3,156	3,775	3,813					1% Increase
INVESTMENT INCOME	3,284	3,088	7,239	7,311					1% Increase
LOCAL CONTRIBUTION	16,974	5,014	5,014	5,014					1% Increase
ALL OTHER REVENUE	5,169	5,822	5,779	5,837					1% Increase
FARE INCREASE	-	-	-	0					
SUBTOTAL REVENUES	300,770	289,100	293,737	296,624					
REVENUE CARRYOVER	0	12,882	2,320	9,999					
<b>TOTAL REVENUES</b>	<b>300,770</b>	<b>301,982</b>	<b>296,057</b>	<b>306,623</b>					
<b>EXPENSES:</b>									
LABOR	414,254	448,467	443,826	458,058					
MATERIAL	43,267	47,250	48,755	50,803					4.2% Increase
FUEL	21,639	23,482	19,923	20,251					26,229 gallons @ 77 cents/gallon
ELECTRIC POWER	18,892	21,522	21,111	23,222					10% Increase
PROVISIONS FOR I & D	11,043	15,543	15,543	16,195					4.2% Increase
ALL OTHER EXPENSES	34,907	41,011	36,397	37,925					4.2% Increase
<b>TOTAL EXPENSES</b>	<b>544,002</b>	<b>597,275</b>	<b>585,555</b>	<b>606,454</b>					
FUNDING FOR OPERATIONS	243,232	308,175	291,818	309,830					
ASSOCIATED CAPITAL	1,807	1,400	1,400	1,459					4.2% Increase
MOBILITY LIMITED EXPENSE	-	-	-	3,000					
<b>TOTAL FUNDING</b>	<b>245,039</b>	<b>309,575</b>	<b>293,218</b>	<b>314,289</b>					
RECOVERY RATIO	55.29%	50.56%	50.56%	50.56%					



REMARKS

	1984	1985 ADOPTED ACTUAL	1985 ESTIMATED BUDGET	1986 ACTUAL PROJECTED	
<b>PART VIII - CRD DETAIL</b>					
REVENUES:					
PASSENGER REVENUE	119,309	122,326	122,435	126,108	3% Increase
OTHER REVENUE	6,508	2,988	3,782	3,895	3% Increase
FARE INCREASE	-	-	-	0	
SUBTOTAL REVENUES	125,817	125,314	126,217	130,003	
REVENUE CARRYOVER	0	1,334	0	1,096	
<b>TOTAL REVENUE</b>	<b>125,817</b>	<b>126,648</b>	<b>126,217</b>	<b>131,099</b>	
EXPENSES:					
CARRIER COST	199,694	222,319	217,728	228,123	
NIRC DIRECT COST	21,588	17,910	18,211	18,976	Labor Increase 5.32%, Other Increase 4.2%
NIRC GENERAL LABOR	-	2,858	4,383	4,616	4.2% Increase
TOTAL EXPENSES	221,282	243,087	240,322	251,715	5.32% Increase
FUNDING FOR OPERATIONS	95,465	117,773	114,105	121,712	
ADDITIONAL COMPENSATION	2,518	2,577	2,557	2,634	3% Increase
MOBILITY LIMITED EXPENSE	-	-	-	500	See comment in cover memo
UNANTICIPATED CAPITAL	395	200	-	-	
<b>TOTAL FUNDING</b>	<b>98,378</b>	<b>120,550</b>	<b>116,662</b>	<b>124,846</b>	
DEPRECIATION	2,835	2,586	2,667	2,720	2% Increase
RECOVERY RATIOS	56.94%	52.10%	52.54%	52.10%	



PART IX - SBD DETAIL

	1984 ACTUAL	1985 ADOPTED BUDGET	1985 ESTIMATED ACTUAL	1986 PROJECTED	REMARKS
<b>REVENUES:</b>					
FUNDED CARRIERS	13,191	13,746	13,849	14,541	5% Increase
CONTRACT BUS	1,244	1,468	1,287	1,351	5% Increase
PARATRANSIT	-	2,329	2,421	2,542	5% Increase
OTHER	253	-	730	759	4% Increase
FARE INCREASE	-	-	-	0	
<b>SUBTOTAL REVENUES</b>	<b>14,688</b>	<b>17,543</b>	<b>18,287</b>	<b>19,193</b>	
REVENUE CARRYOVER	0	1,000	201	556	
<b>TOTAL REVENUES</b>	<b>14,688</b>	<b>18,543</b>	<b>18,488</b>	<b>19,749</b>	
<b>EXPENSES:</b>					
FUNDED CARRIERS	35,338	39,207	39,207	42,145	4.2% Increase with 1985 new programs at full year
CONTRACT BUS	4,231	4,640	4,640	4,835	4.2% Increase
PARATRANSIT	1,748	4,994	4,994	5,204	4.2% Increase
ADMINISTRATION	3,535	8,500	8,057	8,755	\$8.5 million base with 4% COLA/Merit for 9/12 of year
FUEL	-	4,000	3,700	3,774	2% Increase
INSURANCE	-	1,104	1,574	1,731	10% Increase
CENTRALIZED OPERATIONS	7,754	3,250	3,250	3,380	4.2% Increase
OTHER	-	-	68	135	Annual SBD Board of Directors salaries
<b>TOTAL EXPENSES</b>	<b>52,606</b>	<b>65,695</b>	<b>65,490</b>	<b>69,959</b>	
FUNDING FOR OPERATIONS	37,918	48,152	47,203	50,766	
UNANTICIPATED CAPITAL	226	100	100	-	
MOBILITY LIMITED EXPENSE	-	-	-	1,000	See comment in cover memo
<b>TOTAL FUNDING</b>	<b>38,144</b>	<b>48,252</b>	<b>47,303</b>	<b>51,766</b>	
RECOVERY RATIOS	27.92%	28.23%	28.23%	28.23%	



SALES TAX AND PTF FORECASTS AND REVENUE ALLOCATIONS

Sales Tax Forecasts

The following table sets forth several alternative ways of forecasting FY '85 and FY '86 RTA sales tax revenues.

Alternative RTA Sales Tax Forecasts  
(\$ millions)

	<u>'85 Est.</u>	<u>'86 Proj.</u>
Bureau of the Budget as Submitted	344.6	368.8
Bureau of the Budget as Adjusted by RTA *	351.4	376.0
IEFC	340.0	360.0
3-month Moving Average	362.7	
@ 7% growth		388.1
@ 5.9% growth		384.1
@ no real growth/4.2% inflation		377.9
6-month Moving Average	354.7	
@ 7% growth		379.5
@ 5.9% growth		375.6
@ no real growth/4.2% inflation		369.6
Adopted Budget	340.2	
@ 7% growth		364.0
@ 5.9% growth		360.3
@ no real growth/4.2% inflation		354.5
1984 5-year Plan Forecast	340.2	360.6

\* Conversion of Bureau of the Budget's distribution month basis to RTA's liability month basis.



The proposed level of \$345.0 million for FY '85 and \$365.7 million for FY '86 reflects several factors pointing to the desirability of a conservative assumption:

- o Since inception of the RTA's sales tax in 1979, there has been essentially zero real growth when seasonality and inflation are factored out, except for decline and return to norm in phase with recession. Further, in the present business cycle, Illinois (and the Midwest as a whole) has not participated fully in the economic recovery and expansion (primarily as the result of depressed heavy industry and agricultural sectors). Assuming an inflation rate of 4.2% (see Attachment C) the 7% growth increment proposed by the Bureau of the Budget would require real growth of almost 3% which conceivably could happen on the national level. However, it appears prudent at the present time to assume that Northeastern Illinois will expand at lower levels.
- o Generally, population growth in Northeastern Illinois has remained stagnant since 1980 (up only 1.6% through 1984). Of the 112,276 person net increase represented by this 1.6%, only 16,745 are in Cook County (1% tax rate) with the balance in the collar counties (1/4% tax rate).
- o The current business cycle at 30 months' expansion is quite mature and coupled with mixed and/or fluctuating leading indicators. Many forecasters are intimating that the next recessionary downturn could come during 1986.
- o Consumer liabilities, which include mortgages, installments, bank loans, and other debt rose to 72% of personal income in the first quarter of 1985 and have been rising since. According to Edward S. Hyman, Chief Economist at Cyrus Lawrence, as quoted by the New York Times (6/30/85, Section 3, page 1), "consumer liabilities totaled \$2.26 trillion on March 31, up from the \$2 trillion a year earlier. Although consumer assets rose to \$6.9 trillion from \$6.1 trillion in the same period, consumer spending will be inhibited during the rest of the year and possibly into 1986 by the huge debt burden, Hyman says. The reason: Most of the liabilities are borne by consumers whose resources are already stretched to capacity." Increasing numbers of economists are beginning to share this viewpoint as an explanation of sluggish retail trade performance in recent months.
- o Unemployment remains high. For example, various forecasters are predicting national unemployment rates as follows:



(% change from prior year)  
(national data)

	<u>1985</u>	<u>1986</u>	<u>1987</u>
Blue Chip Consensus (7/10/85)	7.3%	7.2%	
Chase Econometrics (6/25/85)	7.2%	7.6%	7.1%
Citicorp (7/10/85*)	7.1%	6.7%	
Data Resources, Inc. (6/12/85)	7.3%	7.6%	7.3%
Evans Economics (7/10/85*)	7.2%	6.9%	
Dr. Walter Heller, U. of Minn. (7/10/85*)	7.4%	7.6%	
First National Bank Chicago (7/3/85)	7.5%	7.9%	
L. Meyer & Associates (7/10/85*)	7.2%	7.0%	
Merrill Lynch (7/10/85*)	7.4%	7.3%	
National Association Realtors (7/85)	7.4%	7.8%	7.9%
UCLA Business Forecast (7/10/85*)	7.3%	7.2%	
University of Michigan (7/10/85*)	7.3%	7.2%	
Dr. Murray Weidenbaum Washington U., St. Louis (7/10/85*)	7.4%	7.5%	

\*As quoted by Blue Chip Economic Indicators.

- o Unusually high percentage increases from the previous period in RTA sales taxes during the first quarter 1984, June 1984, and March 1985 have skewed RTA's moving average series toward higher forecasts than would otherwise be the case.

Statutory distribution of the projected FY '86 RTA sales tax at the \$365.7 million level as proposed is estimated to be as follows:



FY '86 Statutory Sales Tax Distribution  
(\$ millions)

	<u>Totals</u>		<u>Statutory \$ Allocations</u>			
	<u>\$</u>	<u>%</u>	<u>RTA</u>	<u>CTA</u>	<u>CRD</u>	<u>SBD</u>
Collected from Chicago	134.4	36.74				
RTA 15%			20.2			
CTA 85%				114.2		
Collected from Sub. Cook	194.0	53.05				
RTA 15%			29.1			
CTA 30% of 85%				49.5		
CRD 55% of 85%					90.7	
SBD 15% of 85%						24.7
Collected from Collar Co.	37.3	10.21				
RTA 15%			5.6			
CRD 70% of 85%				22.2		
SBD 30% of 85%					9.5	
<u>FY '86 \$ TOTALS</u>	<u>365.7</u>		<u>54.9</u>	<u>163.7</u>	<u>112.9</u>	<u>34.2</u>
<u>=====</u>	<u>=====</u>		<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
<u>FY '86 % TOTALS</u>	<u>100.00</u>		<u>15.00</u>	<u>44.76</u>	<u>30.88</u>	<u>9.36</u>
<u>=====</u>	<u>=====</u>		<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

PTF Forecasts

PTF revenues are estimated at 25% of RTA sales tax forecasts (liability month basis), consistent with the manner in which RTA currently accounts for these revenues.

Revenue Allocation

Against a status quo assumption -- i.e., no change in the method of making the allocation of UMTA Section 9, PTF, and RTA Discretionary funds from that employed in the FY '85 budget -- allocations to each Service Board at the proposed \$365.7 level of RTA sales tax and UMTA funds at the \$49.3 level would be as follows:



FY '86 Allocation of Revenues  
(in millions of Dollars)

	<u>CTA</u>	<u>CRD</u>	<u>SBD</u>	<u>Total Allocation</u>
Public Funding Req.	311.3	124.3	50.8	486.4
Sales Tax Allocation	163.6	113.0	34.3	310.8
UMTA Allocation	42.6	4.2	2.5	49.3
Net Funding Requirements	105.1	7.1	14.0	126.2
PTF Allocation	76.1	5.2	10.1	91.4
Allocation of Discretionary Funds	29.0	1.9	3.9	34.8



#### UNDERLYING FINANCIAL TRENDS

Under the provisions of the RTA Act, as amended, when a Service Board exceeds its budgeted recovery ratio, any such overage may be carried forward into successive years and used in lieu of system-generated revenue as a credit toward budgeted recovery ratios in those years. The same principle applies to the system-wide recovery ratio mandated at 50% by the Act.

As the result, the substantial carryovers generated in 1984 have skewed the true picture of system performance. For purposes of illustrating the underlying trend, the following table shows the recovery ratios that result when carryover is factored out of the projections as set forth elsewhere herein:

	<u>CTA</u>	<u>CRD</u>	<u>SBD</u>	<u>SYSTEM-WIDE</u>
1984	55.29%	56.94%	29.92%	53.86%
1985	50.16%	52.54%	27.43%	49.39%
1986	48.91%	51.66%	27.43%	48.13%
1987	47.27%	50.92%	27.56%	46.30%
1988	45.46%	49.95%	27.54%	44.87%
1989	43.72%	49.00%	27.54%	43.49%
1990	42.05%	48.07%	27.53%	42.16%



## RESIDUAL EXPENSE INFLATOR

In all financial planning endeavors, a point of diminishing returns occurs, after which it ceases to be worthwhile to attempt to forecast specific increases in expense. Therefore, it becomes necessary to develop a residual expense inflator for application in such instances where either anticipated variance from the norm or magnitude of cost involved does not warrant a separate estimate.

For purposes of the status quo forecasts, it is proposed that a residual expense inflation rate of 4.2% for FY '86 (and 4.5% for FY '87, and 5% thereafter) be adopted. The idea being that only significant expense deviations (in rate and/or dollar magnitude) from this level will be estimated separately.

Basically, the 4.2% rate is a derivative of projected consumer price index increases for all urban workers. For example, the most recent available CPI-U forecasts are:



(% change from prior period)  
(national data)

	<u>1985</u>	<u>1986</u>	<u>1987</u>
Blue Chip Consensus (7/10/85)	3.8%	4.3%	
Chase Econometrics (6/25/85)	3.8%	4.3%	4.5%
CitiCorp (7/10/85*)	3.7%	5.2%	
Data Resources, Inc. (6/12/85)	3.6%	3.9%	4.6%
Evans Economics (7/10/85*)	3.8%	4.7%	
Dr. Walter Heller, U. of Minn. (7/10/85*)	3.7%	4.4%	
First National Bank Chicago (7/3/85)	3.5%	3.8%	
L. Meyer & Associates (7/10/85*)	3.4%	3.0%	
Merrill Lynch (7/10/85*)	3.6%	3.8%	
National Association Realtors (7/85)	3.5%	3.5%	4.2%
UCLA Business Forecast (7/10/85*)	3.7%	4.1%	
University of Michigan (7/10/85*)	3.8%	5.1%	
Dr. Murray Weidenbaum Washington U., St. Louis (7/10/85*)	3.5%	4.4%	

\*As quoted by Blue Chip Economic Indicators.

Since for at least the last 16 months, Chicago's CPI-U has with relatively little variation run approximately one point (index point, not percentage, i.e., April 1985: 319.1 vs. 320.1) below the national index, it is felt the 4.2% assumption for FY '86 is a reasonable representation of a conservative (highest expense) position (as are 4.5% and 5.0% for FY '87 and the outyears respectively).

Although lower than in previous years, these inflation estimates reflect the generally accepted notion that the Federal Reserve Board has succeeded in



its efforts to wring runaway inflation from the economy. Presumably, in view of the vigor with which the Fed has pursued this objective, it would place a higher priority on restraining inflation than stimulating the economy through the money supply were the two objectives to come into conflict.

It can be argued that the CPI indices (which include imports) are not the best indicator of residual expenses -- that an index such as the GNP implicit price deflator (which does not include imports) would be better. However, the GNP price deflator is not available on a regional basis and there appears to be less consensus among forecasts of its behavior in FY '86 and FY '87. In general, however, GNP deflators as projected by both DRI and Chase Econometrics are only slightly below FY '86 range suggested herein at 3.5% and 4.1% respectively (and quite close to the suggested FY '87 range at 4.4% and 4.8% respectively), so any theoretical difference is probably moot from a practical standpoint.



REGIONAL TRANSPORTATION AUTHORITY  
FINANCIAL POSITION  
(In Thousands of Dollars)

	1985 ESTIMATE	1986 PROJECTION	1987 FORECAST	1988 FORECAST	1989 FORECAST	1990 FORECAST
<b>PART I - RTA REVENUES:</b>						
RETAIL SALES TAX	345,000	365,700	382,157	401,265	421,328	442,394
PUBLIC TRANSPORTATION FUND	86,250	91,425	95,539	100,316	105,332	110,599
MOTOR FUEL SALES AND USE TAX	300	200	0	0	0	0
UMTA SECTION 9	58,000	49,300	49,300	49,300	49,300	49,300
OTHER GRANTS & REIMBURSEMENTS	598	678	678	678	678	678
INTEREST INCOME	6,511	5,369	0	0	0	0
MOBILITY LIMITED GRANT	0	4,500	0	0	0	0
<b>TOTAL RTA REVENUES</b>	<b>496,659</b>	<b>517,172</b>	<b>527,674</b>	<b>551,559</b>	<b>576,638</b>	<b>602,971</b>
<b>PART II - PROGRAM COSTS:</b>						
TOTAL TRANSPORTATION SERVICES	457,183	490,901	520,461	561,132	604,032	649,284
RTA ADMINISTRATION	4,800	5,040	5,292	5,557	5,835	6,127
RIDERSHIP INFO., MARKETING	2,700	2,835	2,963	3,111	3,267	3,430
DEMONSTRATIONS, EXPERIMENTS	40	0	0	0	0	0
REGIONAL SUPPORT	1,113	994	1,044	1,096	1,151	1,209
UNIFIED WORK PROGRAM	520	590	590	590	590	590
INTEREST EXPENSE	2,212	2,771	0	0	0	0
TRANSITION COSTS	113	0	0	0	0	0
SET ASIDE FOR GRANT MATCH	13,400	31,200	31,200	31,200	31,200	31,200
REGION-WIDE SECURITY	0	0				
RTA CAPITAL GRANTS TO CTA	7,000	0	0	0	0	0
RTA CAPITAL GRANTS TO CRD	15,000	0	0	0	0	0
RTA CAPITAL GRANTS TO SBD	4,000	0	0	0	0	0
RTA CAPITAL PURCHASES	200	200	0	0	0	0
<b>PRIOR YEAR BUDGET VARIANCE TO:</b>						
CTA	0	16,357	0	0	0	0
CRD	0	3,888	0	0	0	0
SBD	0	949	0	0	0	0
<b>TOTAL RTA OPERATING EXPENSES</b>	<b>508,281</b>	<b>555,725</b>	<b>561,550</b>	<b>602,686</b>	<b>646,075</b>	<b>691,840</b>
<b>BUDGET SURPLUS (DEFICIT)</b>	<b>-11,622</b>	<b>-38,553</b>	<b>-33,876</b>	<b>-51,127</b>	<b>-69,437</b>	<b>-88,869</b>
<b>PART III - FUND BALANCE:</b>						
BEGINNING BALANCE	27,859	16,237	-22,316	-56,192	-107,319	-176,756
BUDGET SURPLUS (DEFICIT)	-11,622	-38,553	-33,876	-51,127	-69,437	-88,869
<b>ENDING BALANCE</b>	<b>16,237</b>	<b>-22,316</b>	<b>-56,192</b>	<b>-107,319</b>	<b>-176,756</b>	<b>-265,625</b>



REGIONAL TRANSPORTATION AUTHORITY  
FINANCIAL POSITION  
(In Thousands of Dollars)

	1985 ESTIMATE	1986 PROJECTION	1987 FORECAST	1988 FORECAST	1989 FORECAST	1990 FORECAST
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PART IV - FAREBOX AND OTHER SYSTEM GENERATED REVENUE (Includes revenue carryover)						
RTA	9,510	11,086	0	0	0	0
CTA	296,057	306,623	305,219	302,485	305,460	308,465
CRD	126,217	131,099	136,999	137,954	142,058	146,320
SBD	18,488	19,749	20,638	21,670	22,523	23,295
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TOTAL REVENUE	450,272	468,557	462,856	462,109	470,041	478,080
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PART V - SYSTEM OPERATING EXPENSES						
RTA	9,286	9,459	9,889	10,354	10,843	11,356
CTA*	585,555	606,454	633,745	665,432	698,704	733,641
CRD**	240,212	251,629	262,954	276,102	289,907	304,402
SBD***	65,490	69,959	73,108	76,763	80,600	84,631
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TOTAL EXPENSES	900,543	937,501	979,696	1,028,651	1,080,054	1,134,030
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PART VI - RECOVERY RATIOS						
CTA	50.56%	50.56%	48.16%	45.46%	43.72%	42.05%
CRD	52.54%	52.10%	52.10%	49.96%	49.00%	48.07%
SBD	28.23%	28.23%	28.23%	28.23%	27.94%	27.53%
SYSTEM-WIDE	50.00%	49.98%	47.24%	44.92%	43.52%	42.16%

\* CTA expenses exclude unanticipated capital and mobility limited costs.

\*\* CRD expenses exclude depreciation, unanticipated capital and mobility costs.

\*\*\* SBD expenses exclude unanticipated capital and mobility limited costs.



REGIONAL TRANSPORTATION AUTHORITY  
FINANCIAL POSITION  
(In Thousands of Dollars)

	1985 ESTIMATE	1986 PROJECTION	1987 FORECAST	1988 FORECAST	1989 FORECAST	1990 FORECAST
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CHICAGO TRANSIT AUTHORITY:						
REVENUES:						
SYSTEM GENERATED REVENUE	271,345	274,058	276,799	279,567	282,363	285,187
OTHER REVENUE	10,139	10,241	10,343	10,446	10,550	10,656
CITY CONTRIBUTION	5,014	5,014	5,014	5,014	5,014	5,014
INVESTMENT INCOME	7,239	7,311	7,384	7,458	7,533	7,608
FARE INCREASE	0	0	0	0	0	0
SUBTOTAL REVENUES	293,737	296,624	299,540	302,485	305,460	308,465
REVENUE CARRYOVER	2,320	9,999	5,679	0	0	0
TOTAL REVENUES	296,057	306,623	305,219	302,485	305,460	308,465
EXPENSES:						
OPERATING COSTS	585,555	606,454	633,745	665,432	698,704	733,641
REQUIRED EXPENSE REDUCTION	0	0	0	0	0	0
SUBTOTAL EXPENSES	585,555	606,454	633,745	665,432	698,704	733,641
ASSOCIATED CAPITAL	1,400	1,459	1,400	1,400	1,400	1,400
MOBILITY LIMITED EXPENSE	0	3,000	0	0	0	0
TOTAL EXPENSES	586,955	610,913	635,145	666,832	700,104	735,041
DEFICIT	293,218	314,289	335,605	364,347	394,644	426,576
RECOVERY RATIO	50.56%	50.56%	48.16%	45.46%	43.72%	42.05%



REGIONAL TRANSPORTATION AUTHORITY  
FINANCIAL POSITION  
(In Thousands of Dollars)

	1985 ESTIMATE	1986 PROJECTION	1987 FORECAST	1988 FORECAST	1989 FORECAST	1990 FORECAST
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COMMUTER RAIL DIVISION						
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REVENUES:						
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PASSENGER REVENUE	122,435	126,108	129,891	133,788	137,802	141,936
OTHER REVENUE	3,782	3,895	4,012	4,132	4,256	4,384
FARE INCREASE	0	0	0	0	0	0
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SUBTOTAL REVENUES	126,217	130,003	133,903	137,920	142,058	146,320
REVENUE CARRYOVER	0	1,096	3,096	34	0	0
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TOTAL REVENUES	126,217	131,099	136,999	137,954	142,058	146,320
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EXPENSES:						
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OPERATING COSTS	237,655	248,995	260,201	273,211	286,871	301,214
ADDED COMPENSATION	2,557	2,634	2,753	2,891	3,036	3,188
REQUIRED EXPENSE REDUCTION	0	0	0	0	0	0
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SUBTOTAL EXPENSES	240,212	251,629	262,954	276,102	289,907	304,402
UNANTICIPATED CAPITAL	0	0	0	0	0	0
DEPRECIATION	2,667	2,720	2,842	2,984	3,133	3,290
MOBILITY LIMITED EXPENSE	0	500	0	0	0	0
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TOTAL EXPENSES	242,879	254,849	265,796	279,086	293,040	307,692
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DEFICIT	116,662	124,846	131,893	141,166	150,982	161,372
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RECOVERY RATIO	52.54%	52.10%	52.10%	49.96%	49.00%	48.07%



REGIONAL TRANSPORTATION AUTHORITY  
FINANCIAL POSITION  
(In Thousands of Dollars)

	1985 ESTIMATE	1986 PROJECTION	1987 FORECAST	1988 FORECAST	1989 FORECAST	1990 FORECAST
SUBURBAN BUS DIVISION	-----	-----	-----	-----	-----	-----
REVENUES:	-----	-----	-----	-----	-----	-----
PASSENGER REVENUE	17,557	18,434	19,356	20,323	21,340	22,407
OTHER REVENUE	730	759	789	821	854	888
FARE INCREASE	0	0	0	0	0	0
SUBTOTAL REVENUES	18,287	19,193	20,145	21,144	22,194	23,295
REVENUE CARRYOVER	201	556	493	526	329	0
TOTAL REVENUES	18,488	19,749	20,638	21,670	22,523	23,295
EXPENSES:	=====	=====	=====	=====	=====	=====
OPERATING COSTS	65,490	69,959	73,108	76,763	80,600	84,631
REQUIRED EXPENSE REDUCTION	0	0	0	0	0	0
SUBTOTAL EXPENSES	65,490	69,959	73,108	76,763	80,600	84,631
UNANTICIPATED CAPITAL	100	0	0	0	0	0
MOBILITY LIMITED EXPENSE	0	1,000	0	0	0	0
TOTAL EXPENSES	65,590	70,959	73,108	76,763	80,600	84,631
DEFICIT	47,303	51,766	52,963	55,619	58,406	61,336
RECOVERY RATIO	28.23%	28.23%	28.23%	28.23%	27.94%	27.53%

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